

Freight Rates and Business Conditions

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FREIGHT RATES AND UNEMPLOYMENT

[An editorial in the Galveston (Texas) News,
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Washington hears that the manufacturers who are coming to engage in the "unemployment conference" are bringing with them the proposition that it would help greatly to reduce freight rates 30 or 40 per cent. That it would help is not to be questioned. To say that is merely to say that the demand for commodities increases somewhat as the prices for them decrease; and then, by adding to that truism the equally trite fact that as the demand for commodities increases so does the demand for labor, one comes to the proof of that proposition by a process easy enough to be followed by those who never so much as saw the outside of a work on political economy.

But admitting that it would help to reduce freight rates 30 or 40 per cent, whether it would "greatly help" is altogether another question, the answer to which is not so obvious. Calculations made by railroad traffic men, though at a time when commodity prices were much higher than they are now, showed that the entire cost of transportation was but a very small percentage of the ultimate prices of commodities. Allowing for the possibility that those calculations did not take all the facts into account, one is nevertheless left with reason for doubting if a reduction of only 30 or 40 per cent in freight rates would of itself be causative of any considerable increase in the demand for commodities, and, thereafter, for labor. Possibly it could be said that the exemplary influence of that reduction would be more powerful than the direct economic effect, in that a reduction of freight rates would be conducive to a reduction of profits and of wages, the aggregate of which would sufficiently lower prices as to permit of a greatly increased consumption. But is there any assurance that freight rates could drag profits and wages down with them, even part way? And if that were seen to be a certain consequence, would the proposal to reduce freight rates 30 or 40 per cent be as popular as it is?

But the heart of this question is whether such a reduction in freight rates could be made without inflicting serious injury on the railroads. To be sure, there are those who contend that at reduced rates the railroads would profit more from the increased volume of traffic which it is assumed would follow than they do from the

present volume of traffic at the rates of the present. That is a proposition that is not susceptible either to mathematical demonstration or mathematical refutation. But when one reflects that railroad operators have no aversion for an increase of profits their reluctance to make a heavy and arbitrary reduction of freight rates gives a good deal of persuasiveness to the suspicion that that argument lacks much of being sound. If a reduction of freight rates would not make the railroads prosperous, but would, on the contrary, make them poorer than they are, then assuredly the prescription of these manufacturers, though offered as a tonic, would operate as a poison to the industrial body. For not the least of the causes of the "unemployment" that they want to do away with is the poverty of the railroads. The railroads themselves are buyers, immense buyers; buyers of commodities and of labor. Normally their purchases of iron and steel amount to something like a third of the total output. And the railroads are not now, and have not been for five or six years, in the market for commodities and labor to anything like the degree their needs justify. The reason is the same reason that has forced most others to economize in their purchases. They haven't had the money to buy all that they have needed, and haven't got it now. They are hard put to find the money to make even those purchases that are imperative and urgent. Would it help us out of our industrial troubles to feed the country on the little fat that may be left on the railroads?

THE ARGUMENT FOR LOWER FREIGHT RATES

[An editorial in the Galveston (Texas) News,
September 6, 1921]

The railroads are common carriers—but of passengers and freight; not of the country's economic troubles. This, you may say, is obvious. It once was, but has apparently ceased to be so. The railroads themselves have encountered occasion for reminding the country of the fact.

Certain eloquent advocates from the West appeared before the Interstate Commerce Commission the other day with a plea that it take 25 per cent off the hay and grain rates. They said such action would be the salvation of the farmers. Without conceding that it would, but on the contrary contending that it would profit the farmers only from \$8 to \$56 per capita, assuming that they were allowed to mobilize the reduction in the freight charges, the railroads asked those eloquent appellants what it would do to the railroads to take 25 per cent off the hay and grain rates. Apparently they were not prepared to answer that question. The likelihood is it hadn't occurred to them. Certainly it doesn't appear conspicuously in the outgivings of those who are demanding a steep and wholesale reduction in freight rates. They give us glowing prophecies of the revivifying effect which a reduction would have on this, that or the other industry. They have no eye to see, or at least no tongue to tell what the eye may see would be the effect on the railroad industry. They tell us, to be sure, that lower rates would make more traffic. But they neither attempt to prove it nor to show that with the lowered rates more traffic would be financially desirable to the railroads.

The fact seems to be that in their commendable zeal for the industries for which they speak these appellants for lower rates forget that the railroads have a legal as well as a moral right to earn a reasonable return on their investments. They seem to think it enough to convince the Interstate Commerce Commission that the reductions they ask for would, if made, be beneficial to the country; whereas the only question which that body is allowed to concern itself with is whether, if the reduction asked for were made, the rates would be fair by the test of the right of the railroads to earn a reasonable return on their investments.

Their failure to address themselves to that one pertinent question is the more remarkable—and possibly the more significant—because if they should prove that lower rates would be more

profitable than existing rates then demonstration would not only put the Interstate Commerce Commission under a legal obligation to make the reduction, but would enlist the railroads as partisans of their plea. There can be no doubt that the railroads want rates put at exactly that level which will make them most productive of net revenue. If, therefore, those who are demanding a reduction of freight rates will first recognize that it is both right and expedient that the railroads make a fair profit from their operations, and then set out to prove that lower rates will be more profitable than existing ones, they will at least be engaged in a rational undertaking, whereas they are engaged in one that is hardly that so long as they try to prove merely that lower rates will be more profitable for the industries which are their clients. They might prove that and yet fail to establish either a legal or a moral reason why rates should be reduced; or, for that matter, even a ground of policy. For the financial health of the transportation industry is a matter of as much importance to the country as is the financial health of any other industry, with the possible exception of the farming industry.

The case might be otherwise if the railroads were reveling in the accumulated prosperity of many years. And it might be otherwise if they were free agents rather than wards of governmental bureaucracies. In the one contemplation it would be neither unjust nor unwise to require them to forego profits for a season as a means of nurturing into health other industries whose welfare is essential to theirs. And in the other contemplation high rates might be offered as evidence of extravagance in management for which they were responsible. But neither contemplation would correspond to the realities. There is probably no other great industry that has been so nearly reduced to bankruptcy as has the railroad industry, while, as for extravagance in management, that, if it may justly be charged, is more the fault of government agencies than of the railroads.



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